



**panarctic
oils ltd**

Seventeenth
Annual Report
1984

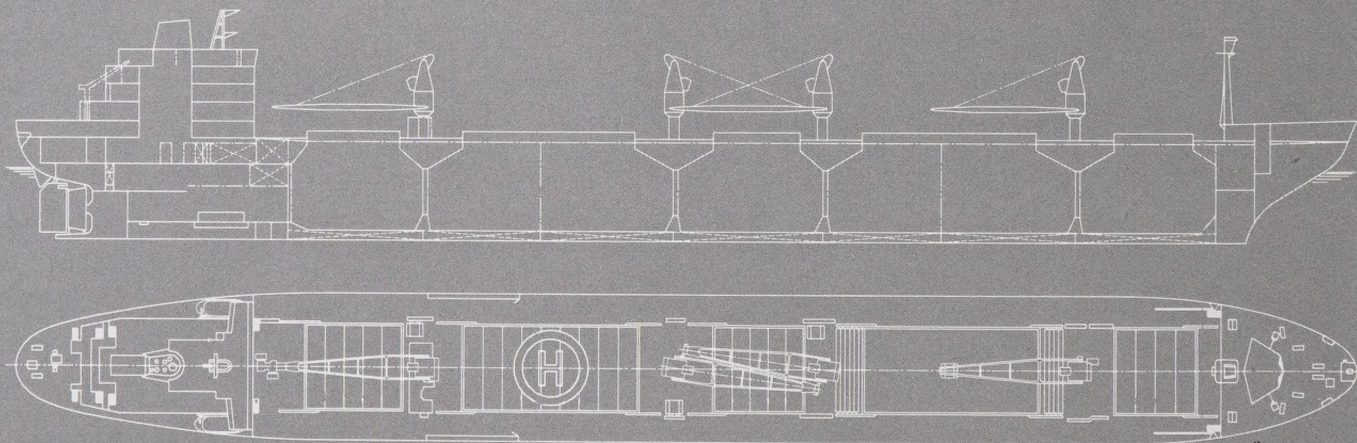
The MV ARCTIC, a 28,000 DWT bulk ore carrier owned by Canarctic Shipping Company Limited of Ottawa, was built in 1978 to the requirements of the Canadian Arctic Pollution Prevention Requirements for Ice Class 2 ships.

It is presently planned to use this vessel to bring the first commercial shipment of crude oil out of the High Arctic Islands in late August or early September, 1985, ice conditions permitting.

In order for the vessel to be suitable for the planned carriage of crude oil from the Bent Horn oilfield on Cameron Island, the ship is being converted and additionally strengthened to allow her to operate in the ice conditions found on her route to Cameron Island.

During the 1985/86 winter the ship will be upgraded to the equivalent of a Class 4 ship. This will permit the vessel to have unrestricted access into Zone 1, where Cameron Island is located. During the first season, 1985, it is expected that the vessel will be accompanied by a Canadian Coast Guard icebreaker.

In the 1985 season the vessel will have the capability to transport about 16 000 tonnes of oil cargo. In 1986 the full 20 000 tonnes capability will be available.



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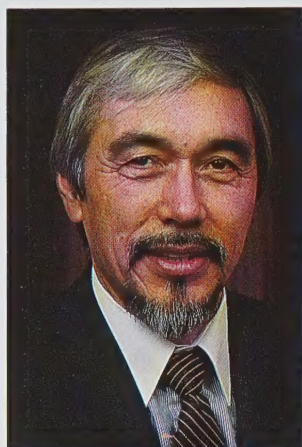
Summary of Shareholders 24

Panarctic Oils Ltd., an industry/government consortium, is owned more than 50 percent by the Government of Canada through Petro-Canada Inc., with the remainder of the shares held by 36 largely Canadian corporate or individual Shareholders. Panarctic explores for oil and natural gas in the Canadian Arctic Islands north of the Canadian mainland and, to date, has large reserves of natural gas and crude oil. Gas reserves represent a 25 percent addition to Canada's gas supply. The crude oil reserves, although not fully developed, are indicated to be large enough to make Canada self-sufficient in oil. Company efforts are currently directed to developing the means to move these resources from the Arctic to southern markets. These large reserves will supply the energy needs of Canada far into the future and provide a surplus for export.

Incorporated May 27, 1966
by Federal Letters Patent
Head Office
815 - Eighth Avenue South West
Calgary, Alberta
T2P 3P2



Board of Directors



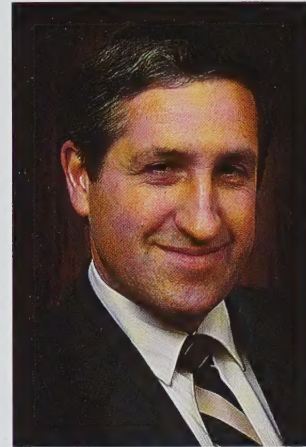
Willie Adams
Senator
The Senate of Canada
Ottawa, Ontario



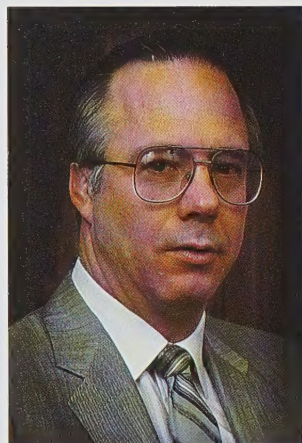
*John Andriuk
Senior Vice-President
Dome Petroleum Limited
Calgary, Alberta



John M. Beddome
President and
Chief Operating Officer
Dome Petroleum Limited
Calgary, Alberta



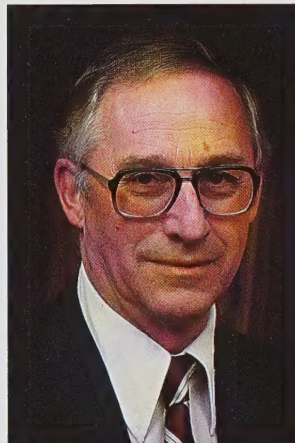
Robert G. Brawn
President
Danyolyn Resources Ltd.
Calgary, Alberta



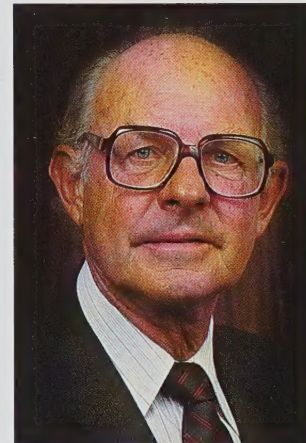
**C. Barrie Clark
Executive Vice-President
PanCanadian Petroleum Limited
Calgary, Alberta



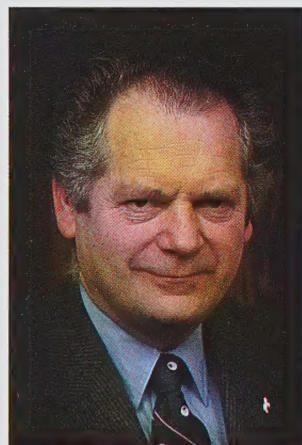
J. A. Dillabough
Vice-President of Production
Canadian Hunter Exploration Ltd.
Calgary, Alberta



Roderick P. Douglas
Executive Vice-President, Operations
Cominco Ltd.
Vancouver, B.C.



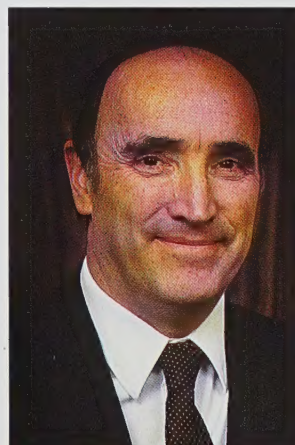
*Chas. R. Hetherington
President and Chief Executive Officer
Panarctic Oils Ltd.
Calgary, Alberta



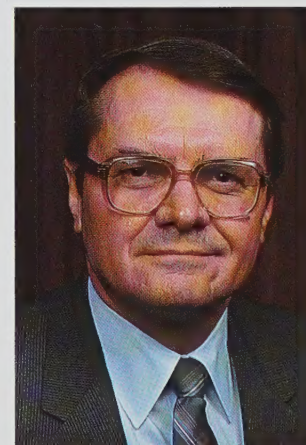
Richard M. Hill
Arctech Resource Management
Services
Inuvik, N.W.T.



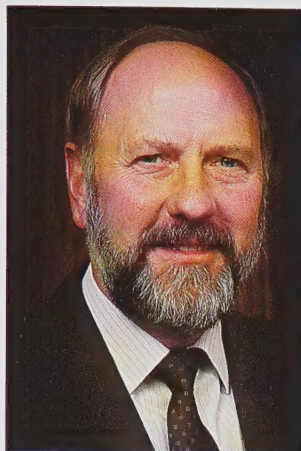
Wilbert H. Hopper
Chairman and
Chief Executive Officer
Petro-Canada
Calgary, Alberta



*Peter Kaye
Senior Vice-President, Exploration
Petro-Canada Resources
Calgary, Alberta



*Edward M. Lakusta
President and
Chief Operating Officer
Petro-Canada
Calgary, Alberta



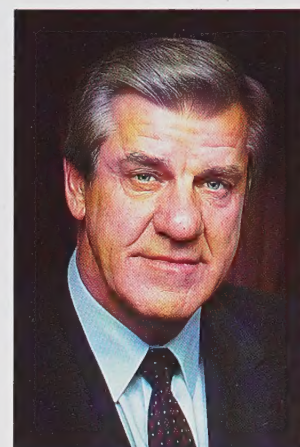
****William Morrow**
Vice-President and Controller
Petro-Canada
Calgary, Alberta



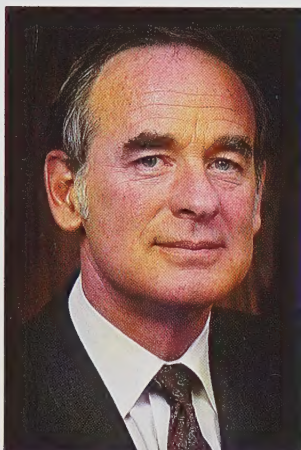
***David P. O'Brien**
****Senior Vice-President,**
Finance and Planning
Petro-Canada
Calgary, Alberta



***David E. Powell**
Senior Vice-President, Exploration
Home Oil Company Limited
Calgary, Alberta



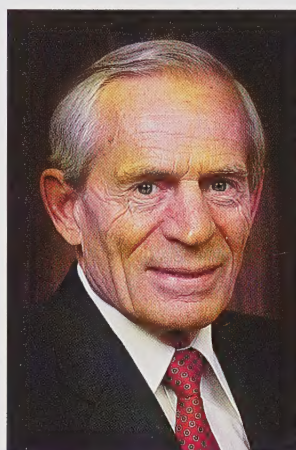
Rollin W. Prather
President and Chief Executive Officer
Trillium Exploration Corporation
Calgary, Alberta



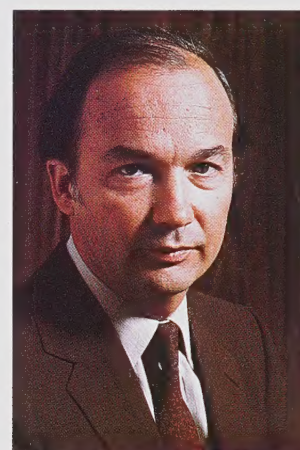
***James M. Stanford**
President
Petro-Canada Resources
Calgary, Alberta



Barry D. Stewart
Senior Vice-President, Production
Petro-Canada Resources
Calgary, Alberta



***John M. Taylor**
President
United Canso Oil & Gas Ltd.
Calgary, Alberta



Michel Vennat, Q.C.
Stikeman, Elliot
Montreal, Quebec

* Member of the Executive Committee of the Board of Directors
** Member of the Audit Committee

Officers

John M. Taylor
Chairman of the Board
Wilbert H. Hopper
Vice-Chairman of the Board
Chas. R. Hetherington
President and Chief Executive Officer

D. C. Waylett
Vice-President — Exploration
L. J. Franklin
Vice-President — Operations
Colin S. MacDonald
Vice-President, Treasurer and Comptroller

R. B. Dawson
Secretary and General Counsel
Sheila A. Culton
Assistant Corporate Secretary
F. R. Matthews, Q.C.
Assistant Secretary

President's Report

As noted in last year's Annual Report, there is a pressing need to get Arctic Islands oil and gas into production after these many years of successful exploration.

The Federal Government published a hydrocarbon development strategy stating that commercial production from proven reserves in the north should take place in phases through demonstration projects prior to the delivery of large quantities of hydrocarbons.

In compliance with this policy, Panarctic concentrated its effort to plan and obtain approvals for a pilot project annually transporting a single tanker load of crude oil from its Bent Horn oilfield on Cameron Island about 70 miles north of Panarctic's Rea Point base on Melville Island. In the summer of 1985, it is planned to take an ice-strengthened tanker to Cameron Island to pick up 100,000 barrels of crude oil which will have been stored in a tank ready for loading into the tanker.

Since this shipment would constitute the first shipment of oil out of Canada's Arctic and offshore regions, the application and approval process was extremely complicated and time-consuming. Seven volumes of documents were filed on various aspects of the application and numerous meetings were held with Government departments generally under the auspices of the Canada Oil and Gas Lands Administration. A series of consultations was held with Federal and Northwest Territorial Government officials and Native groups and communities over the past year. In addition, to demonstrate the feasibility of sailing a vessel to Cameron Island, Panarctic last summer made a voyage to Cameron Island in an ice-strengthened cargo ship and picked up a single symbolic barrel of oil. The cargo ship was escorted by a Canadian Coast Guard ice breaker that carried Coast Guard officials for the purpose of observing the planning and execution of the voyage.



Standing (left to right) R. B. Dawson, *Secretary and General Counsel*, D. C. Waylett, *Vice-President, Exploration*, Colin S. MacDonald, *Vice-President, Treasurer and Comptroller*. **Seated** (left to right) L. J. Franklin, *Vice-President, Operations*, Chas. R. Hetherington, *President and Chief Executive Officer*, Sheila A. Culton, *Assistant Corporate Secretary*.

Shortly after year end Panarctic received necessary Government approvals from the Honourable Minister of Indian Affairs and Northern Development and the support of the Honourable Minister of Energy, Mines and Resources.

Panarctic plans to use a Canadian ship, the MV Arctic, to transport the oil. The MV Arctic is a large ice-strengthened ore carrier which transports lead and zinc ores out of the Arctic. The conversion of centre holds of this ship to carry oil will improve the economic viability of this ship's operations and will make available a Canadian tanker for use in Panarctic's project.

Following successful tanker delivery of oil in the summer of 1985, the project could be expanded by transshipping oil into tankers of lower ice class at Panarctic's Rea Point base. The project, although relatively small, will be profitable and will provide funds for continued planning for the marketing of larger quantities of oil from the substantial oilfields offshore Lougheed Island.

The Polar Gas Project to market gas by pipeline is proceeding with a scaled down version of its original project and on June 29, 1984, an application was filed with the National Energy Board.

Funds generated internally from the Company's drilling operations, along with Shareholder-financed funds, carried the Company's exploration program through 1984, leaving sufficient funds to carry the exploration program through 1985.

At the Company's Annual General Meeting of Shareholders held on June 7, 1984, 17 incumbent Directors were returned to office and Mr. C. Barrie Clark, Executive Vice-President, PanCanadian Petroleum Limited, Mr. Rollin W. Prather, President and Chief Executive Officer, Trillium Exploration Corporation and Mr. Barry D. Stewart, Senior Vice-President, Production, Petro-Canada Resources, were elected to replace Mrs. Ione J. Christensen, Mr. Bartlett B. Rombough and Mr. P. David Williams, who did not stand for re-election. Subsequently, Mr. R. A. Meneley and Mr. David B. Craig resigned and Dr. Peter Kaye, Senior Vice-President, Exploration, Petro-Canada Resources and Mr. J. A. Dillabough, Vice-President of Production, Canadian Hunter Exploration Ltd., were appointed to the Board. Panarctic wishes to express its appreciation to the resigning Directors for their valuable contributions to the Company.

Once again Panarctic wishes to record its appreciation of its employees and to thank them for their continued loyalty and efficient performance throughout the past year.



Calgary, Alberta
April 30, 1985

Chas. R. Hetherington
President and Chief
Executive Officer

General

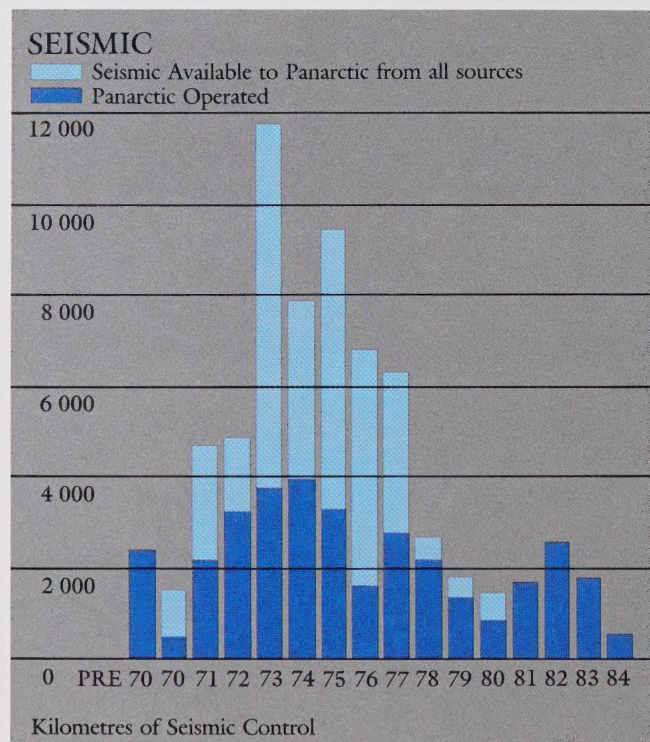
Panarctic remains the only oil exploration company operating in the Canadian Arctic Islands. Panarctic operates 20 Exploration Agreement areas covering former exploration permits held in the Arctic Islands under terms negotiated with the Canada Oil and Gas Lands Administration (COGLA).

In 1984 four wells were completed in which Panarctic had an interest. In 1985 Panarctic expects to complete two offshore wells and one onshore well.

By the end of 1984 the Company had acquired some 67 500 kilometres of seismic data in the Arctic Islands. During the year Panarctic operated one seismic crew in the spring, obtaining 601 kilometres of seismic lines on both land and sea ice on and around Loughheed Island. The shooting of this program completed all the seismic requirements of the 20 Exploration Agreements. By mid 1985 Panarctic and its partners will have fulfilled their drilling obligations in five of the 20 Exploration Agreement areas.

Panarctic's exploration objectives continue to be:

- (1) to establish commercial oil reserves by continuing to explore in the oil prone area on and around Loughheed Island;
- (2) to evaluate and drill new exploration plays in the Sverdrup Basin, and;
- (3) to drill the larger gas prone prospects that could add significantly to gas reserves.



At year end reserve estimates by Panarctic and its consultants indicate marketable natural gas reserves in the Arctic Islands of 17.3 trillion cubic feet. Recoverable oil reserves are estimated to be in the order of 250-500 million barrels.

In the spring of 1984 three wells were drilled from ice platforms. Cisco M-22 and Skate C-59 were delineation wells and the third, Buckingham O-68, was an exploratory test. In addition, the final well in the Permo-Pennsylvanian program on the Sabine Peninsula of Melville Island was drilled.

Skate C-59 was drilled three kilometres southeast of the Skate B-80 dual zone oil and gas discovery of 1981. Gas and oil were recovered on drillstem tests of sandstones of the King Christian Formation. The gas-oil and oil-water contacts in this well were significantly different from those found in the first well, indicating separate hydrocarbon pools. An absolute open flow test over the interval 993 to 1 000 metres (3,257 to 3,280 feet) flowed natural gas at rates up to 465 400 cubic metres (16.4 million cubic feet) per day. The resulting absolute open flow, based on production data, has been estimated at 1 486 800 cubic metres (52.5 million cubic feet) per day. A second test over the interval 1 011 to 1 014 metres (3,316 to 3,326 feet) flowed natural gas at rates up to 191 630 cubic metres (6.76 million cubic feet) per day, and 28.9° API gravity oil at rates up to 27.4 cubic metres (173 barrels) per day along with some salt water. A small flow of natural gas and small amounts of salt water were recovered during a drillstem test over the interval 1 673 to 1 693 metres (5,488 to 5,554 feet) in the Pat Bay Formation. The results of this well show that the Skate field will be complex, containing several fault separated pools having different fluid contacts and different proportions of pooled hydrocarbons.

Cisco M-22, located three kilometres northeast of the Cisco C-42 oil well, unexpectedly encountered a graben that dropped both the Avingak and King Christian Formation below the field oil-water contact. The size of this unproductive area and the effect this will have on the field reserves will not be known until the final interpretation of the 1984 spring seismic program shot in the vicinity of the well has been completed.

Panarctic et al Buckingham O-68, located six kilometres southwest of Buckingham Island in the Norwegian Bay, was drilled to a depth of 2 772 metres (9,094 feet) and bottomed in sandstones, siltstones and shales of the Middle Devonian Bird Fiord Formation. A wireline test at a depth of 2 377.5 metres (7,800 feet) recovered a small amount of 28.1° API oil from a thin sandstone in the Pennsylvanian Canyon Fiord Formation.



Rig A — Cape Allison C-47

ARCTIC ISLANDS MESOZOIC GENERALIZED STRATIGRAPHIC CHART

Hydrocarbon Occurrence
 ● Oil
 * Gas

● Oil
 * Oil and Gas

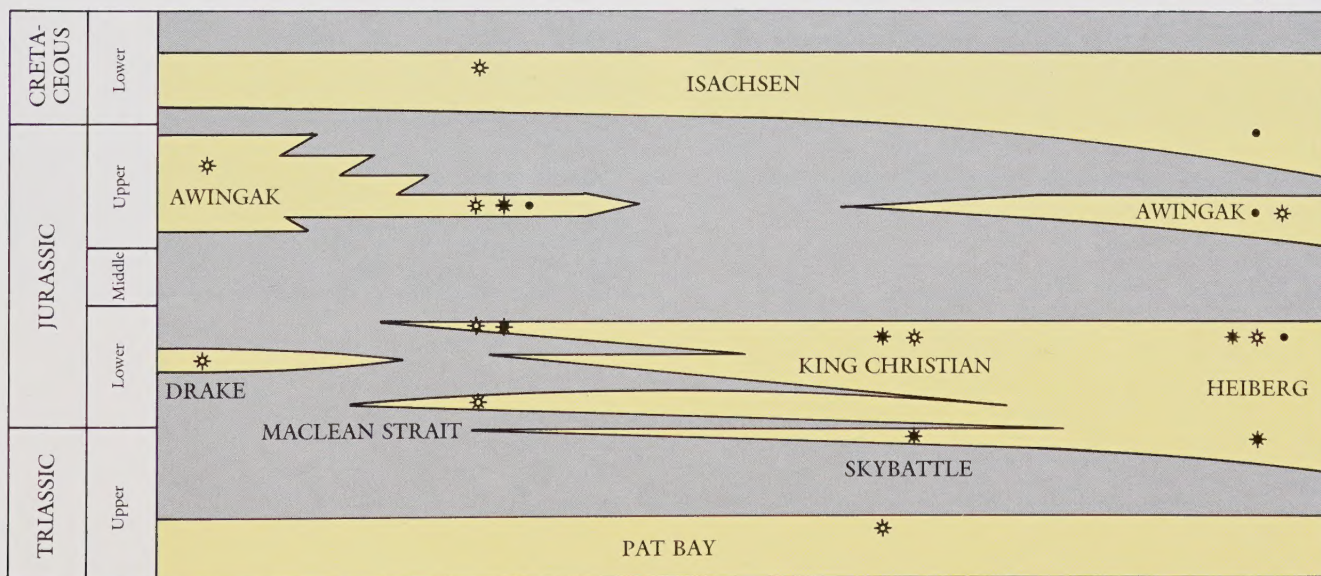
■ Sandstone
 ■ Shale

Southwest
 Hecla — Drake Fields

Whitefish - Cisco Fields

Skate - Sculpin - Maclean Fields

Northeast
 King Christian - Balaena -
 Char - Macmillan Fields - Cape Allison



The Panarctic et al Sherard Bay F-34 well, on the Sabine Peninsula of Melville Island, was drilled to a depth of 5 449 metres (17,877 feet). This well completed the Permo-Pennsylvanian program and validated EA #130. The well was dry and bottomed in tight limestones of the Middle Devonian Blue Fiord Formation.

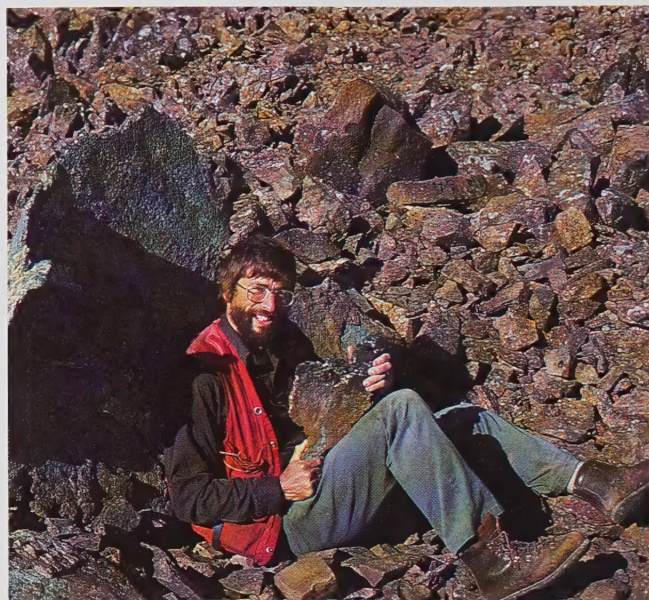
Cape Allison C-47 is located six kilometres offshore from the southwest corner of Ellef Ringnes Island and 17 kilometres east of the King Christian gas field. The well was drilled to a depth of 2 100 metres (6,890 feet) and is indicated to be a multi-zone gas and oil discovery. Sandstones of the overlying Awingak Formation have not yet been fully tested. Drillstem tests of the top of the Heiberg Formation have yielded both oil and gas. Further testing of these two zones and the testing of additional zones which may be hydrocarbon-bearing is presently in progress. This new field will contain significant reserves of natural gas and may be a major oil discovery.

East Drake L-06 lies in the Byam Martin Channel some 20 kilometres east of the Sabine Peninsula. It is seven kilometres east of East Drake I-55, the nearest well in the Drake Point Field. The well tested a separate fault block east of the I-55 pool. The East Drake L-06 well was drilled to a depth of 1 300 metres (4,265 feet) and resulted in the discovery of a new Drake Point Gas Pool. The Drake Point sandstones at this well were thicker than anticipated and this pool will add considerably to the Drake Point Gas Field reserves. Testing of this well continues at this time.

Mineral Exploration

In the summer of 1984 a Panarctic geological field party continued an exploration program on its 24 Mineral Permits containing 593 648 hectares in an area of Proterozoic Volcanics on northwestern Victoria Island. Panarctic continues to be encouraged by the copper and silver showings found to date. In late 1984 Panarctic applied for two additional permits adjacent to the original 24.

During 1985 a geological field party will continue exploration of these permits and will examine in more detail several of the better shows.



Land Activity

Twenty Exploration Agreements covering the Arctic Islands have been received for execution by the 67 interest holders; however, three of these Exploration Agreements will be surrendered in exchange for a one year postponement of the 1985 land relinquishment for the other 17. The benefit from this arrangement is that a 50 percent land relinquishment will take place in 1986 instead of two 25 percent stages in 1985 and 1986.

In 1984 Panarctic was the first interest holder to invoke several "untried" provisions of the new Canada Oil and Gas Act by formally requesting a declaration of commercial discovery, a Minister's authorization of a system to produce oil or gas and a production licence, all in respect of the Bent Horn Project.

Despite a decrease in participation by some key interest holders, the 1982 Operating Agreements continue to provide an avenue for timely funding of drilling programs essential to validation of the Exploration Agreements. During the year the need to seek third party participation increased. However, interest shown recently by potentially significant players that are new or are returning to the Arctic is encouraging. Tangible evidence of this is the 25 percent participation by Shell Canada Resources Limited in the Panarctic et al Cape Allison C-47 well.

During the year Panarctic's landholdings dropped to 11 956 652 gross (4 690 698.47 net) hectares. Surrender to the Crown of 286 160 gross (147 158.78 net) hectares in the Polar Bear Pass area of Bathurst Island caused the only significant decrease. The Sabine Peninsula farmout and penalty interest earned from non-participants in the 1984 sea-ice seismic program and the 1984/85 winter drilling program, combined to cause an increase of 21 524 gross (9 077.08 net) hectares.

CRUDE OIL RESERVES

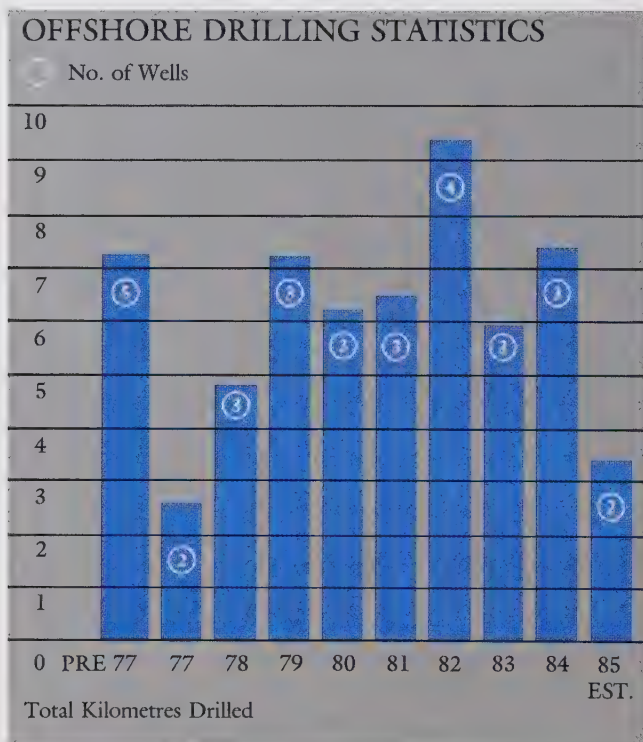
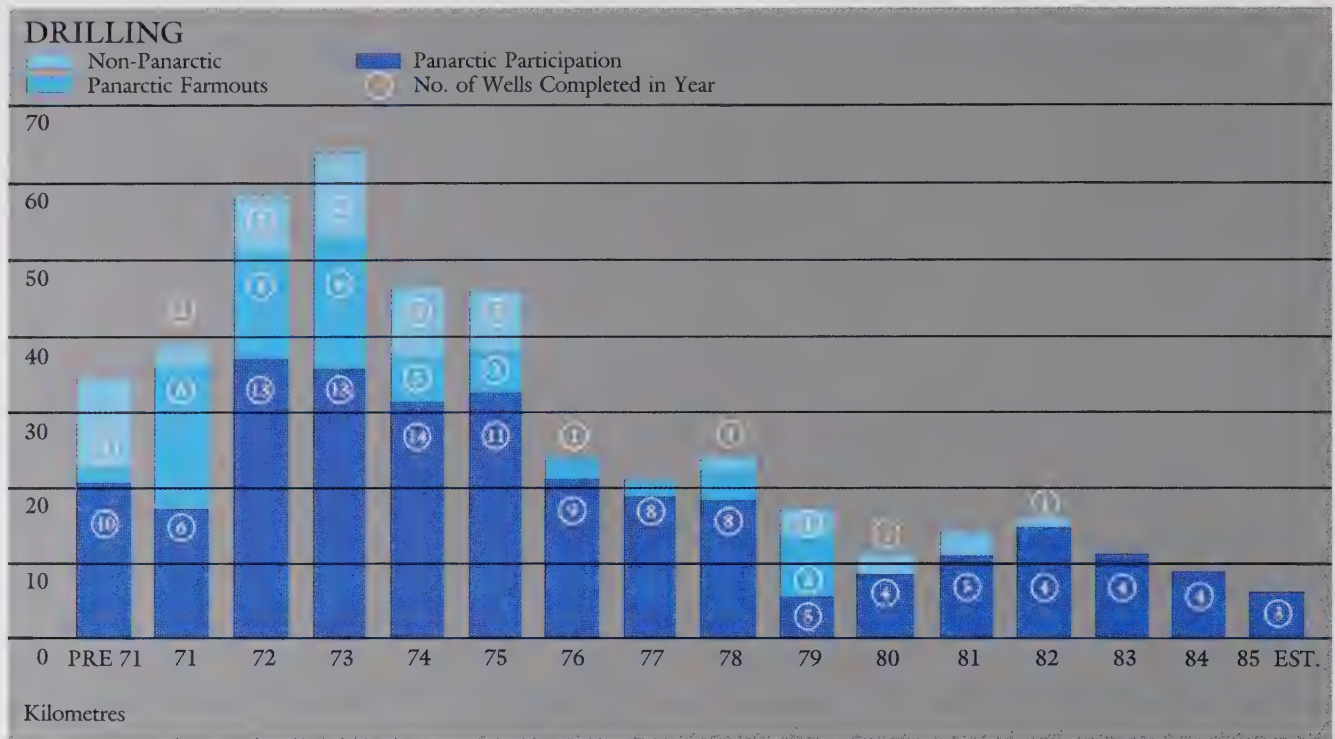
as at December 31, 1984

Arctic Islands

Field	Estimated Recoverable Oil Reserves Million Stock Tank Barrels
1. Balaena	} 250-500
2. Bent Horn	
3. Char	
4. Cisco	
5. Hecla	
6. Maclean	
7. MacMillan	
8. Skate	
9. Thor	



Rig B — East Drake L-06



GAS AND NATURAL GAS LIQUID RESERVES ARCTIC ISLANDS

as at December 31, 1984

Field	Marketable Gas Reserves						Recoverable Natural Gas Liquids Million Bbl
	Proved and Probable				Possible BCF	Total BCF	
	Non Assoc. BCF	Assoc. BCF	Soln. BCF	Subtotal BCF			
1. Drake Point (1)	5,144	—	—	5,144	—	5,144	—
2. Hecla (1)	3,575	—	—	3,575	145	3,720	—
3. Whitefish (2)	2,404	—	—	2,404	327	2,731	36.1
4. Kristoffer (1)	653	—	—	653	454	1,107	—
5. Jackson Bay (1)	1,074	—	—	1,074	—	1,074	—
6. Cisco (2)*	—	280	110	390	—	390	7.3
7. Thor (1)*	715	—	—	715	—	715	—
8. King Christian (1)	588	—	—	588	—	588	—
9. MacLean (2)*	128	476	—	604	—	604	7.4
10. Roche Point (1)	427	—	—	427	—	427	4.3
11. Char (1)*	369	—	—	369	8	377	3.1
12. Skate (2)*	14	206	1	221	—	221	0.2
13. Wallis (1)	98	—	—	98	—	98	—
14. MacMillan (2)*	76	—	—	76	—	76	—
15. Sculpin (2)	58	—	—	58	—	58	—
	15,323	962	111	16,396	934	17,330	58.4

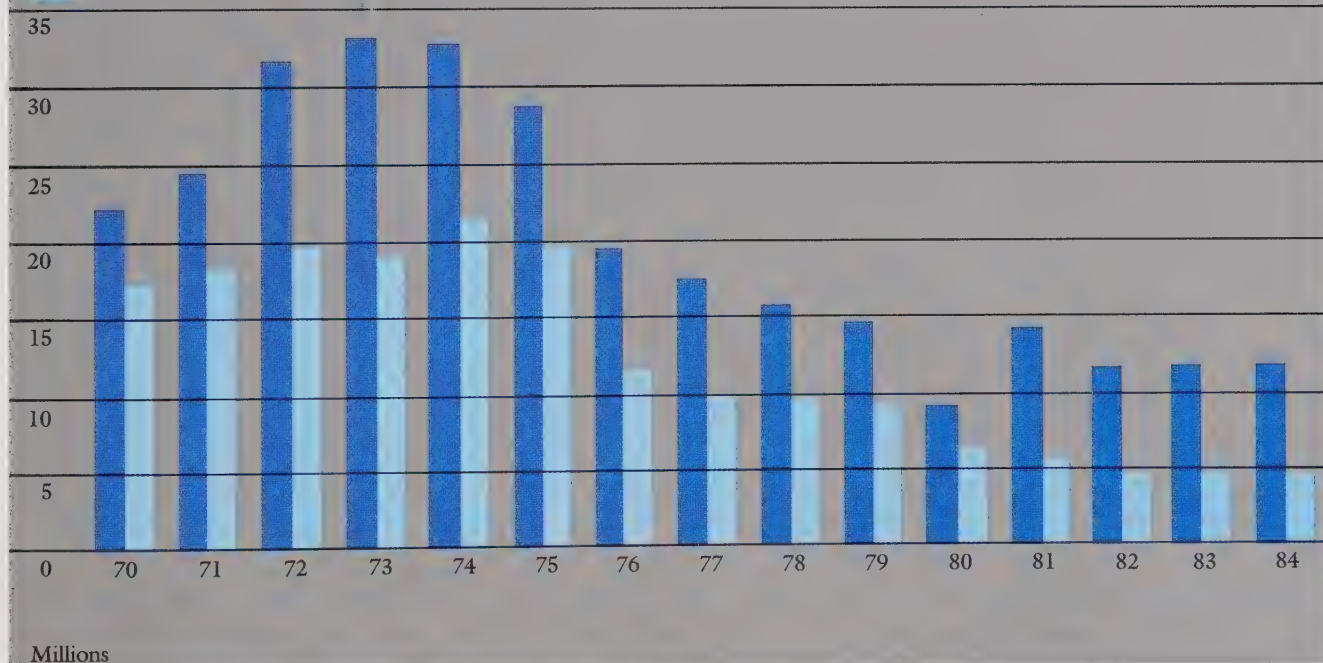
(1) Estimates prepared by D & S Petroleum Consultants (1974) Ltd.

(2) Estimates prepared by Panarctic Oils Ltd.

* Discovery well also encountered significant oil shows.

LAND POSITION

Gross Hectares
Net Hectares



Current Exploration in the Arctic Islands





Ice Platform Drilling

1984 marks the tenth anniversary of Panarctic Oils Ltd.'s pioneering move to initiate offshore drilling in the inter-island ice-covered waters. While exploring in an area where some 75 percent of the surface is water/ice covered, the requirement to be able to drill offshore soon became evident and the results have vindicated the Panarctic decision to develop a drilling system that takes advantage of environmental conditions rather than combatting them.

The ice platform system currently utilizes sophisticated equipment and procedures that were unavailable (or not yet conceived) some short ten years previous. With the system developed by Panarctic the explorer can now move confidently to locations far from shore and to water depths exceeding 500 metres to explore safely and economically the inter-island areas. The greater weight and complexity of the equipment now in use has made ice platform drilling substantially more expensive than the early ventures on the ice, but the ice platform drilling system continues to exhibit very significant economies relative to other systems used for drilling in ice-infested waters.

Thirty-three offshore ice platform wells had been drilled by the end of 1984. Safety remains the prime consideration in Panarctic's operational procedures and many of the modifications effected over the years have enhanced this aspect. Acoustic devices are now employed to close the subsea BOP in the event that the riser fails due to dramatic ice movement — the production tests are conducted through a special auto-closing subsea test tree at the ocean floor — a procedure has been developed utilizing explosives to create rapidly a circular trench in the ice around the well to prevent the uncontrolled spread of oil in the event of a blowout — there has been developed (and patented) a procedure for safely drilling gas hydrates found at shallow depths below the ocean floor.



The data on ice strength accumulated from many wells have permitted a reduction in required ice platform thickness and new methods for making ice have accelerated the ice build-up rate. Together these factors have contributed to enhancement of the economics of ice platform construction.

A modification in procedure for drilling relief wells (if required) has received regulatory approval and as a result the time available for drilling the primary wells has been extended.

Time available for drilling remains the critical factor limiting the depth to which ice platform drilling can be conducted. If/when there arises a strong incentive to drill deeper from ice platforms, a two-season well could be undertaken.

Land Drilling

Land drilling at Sherard Bay proceeded to a total depth of 5 449.3 metres (17,878 feet). The participants in the Permo-Pennsylvanian deep drilling program decided to terminate the program upon the abandonment of the Sherard Bay well and the drilling rig was stacked at the Sherard Bay airstrip in May 1984. This rig was subsequently moved early in 1985 to a location in the Mackenzie Delta.



Bent Horn Production Project

In 1984 Panarctic Oils Ltd. completed engineering and environmental studies in support of application for regulatory approval of this project. It is intended that the Panarctic et al West Bent Horn A-02 well will be produced seasonally and flowed through a two-mile pipeline to storage tanks located adjacent to Arnott Strait on the south side of Cameron Island. Deliveries to market will be made in early September of each year with ice-strengthened tank ships.

Approval for this project was received in early 1985. Project construction is scheduled to begin in March and be completed by mid-June 1985.

Polar Gas Project

This project, to construct a natural gas pipeline to connect Arctic gas supply areas to southern markets, is sponsored by TransCanada PipeLines (the Project Manager), Panarctic Oils Ltd., Petro-Canada, The Ontario Energy Corporation and Tenneco Energy Ltd.

The Polar Gas pipeline would initially take gas from the Mackenzie Delta and, as markets for additional gas volumes develop, would in subsequent phases deliver gas from the Arctic Islands and the Beaufort Sea.

Documentation in support of governmental application, begun in 1983, is expected to be completed in early April 1985 in anticipation of a hearing date before the National Energy Board in the last quarter of 1985. The application for regulatory approval will be supported by TransCanada PipeLines, Panarctic Oils Ltd., Petro-Canada, The Ontario Energy Corporation and Tenneco Energy Ltd.

Environment

The responsible use, protection and conservation of air, water, land and wildlife continues to be a high priority in the conduct of all Panarctic's northern activities. All employees involved in Company field operations recognize the importance of careful practices which reduce the possibilities of environmental damage. Through adherence to appropriate practices, Panarctic consistently meets or exceeds environmental standards established by government. Further, Panarctic has continued to modify and upgrade its conservation procedures by seeking out practical solutions to problems encountered in the harsh northern environment. Of particular note in 1984 was the development of a new Panarctic Polar Bear Policy which has been recognized as addressing the concerns of both employees and government in terms of safety and wildlife management.



Northern Benefits

Employment

Panarctic provided employment in 1984 for 62 Inuit from Pond Inlet and Arctic Bay. Gross salaries were in excess of \$715,000. The Company maintained 41 regular seasonal full time positions for Inuit throughout the drilling season. More than half of the Inuit employees are in the semi-skilled or skilled labour categories.

Northern Consultation

Panarctic personnel attended meetings with government officials in Yellowknife, Frobisher Bay and Resolute Bay throughout the year and visited Pond Inlet, Arctic Bay, Resolute Bay and Grise Fiord on several occasions to discuss issues of mutual concern and, specifically, the Bent Horn Production Project.

Training

In late April 1984 Panarctic completed the on-the-job portion of the Heavy Equipment Operator training program initiated in 1983, graduating 18 Heavy Equipment Operators over the past two years. In addition, Panarctic continued to provide apprenticeship training for Heavy Equipment Mechanics.

Northern Business

During the year Panarctic purchased supplies and services in excess of \$3 million from seven northern suppliers. Panarctic joined the NWT Chamber of Commerce in 1984 to facilitate information exchange between northern businessmen and Company staff responsible for procurement of services and supplies.



Expenditures

In 1984 the Company spent \$87.7 million on exploration activities on behalf of itself and joint venture associates. This is a decrease of \$32 million from the previous year and is a direct result of the cancellation of the third well in the Permo-Pennsylvanian drilling program. Panarctic's share of the exploration expenditures was \$38.4 million, an increase over 1983 of \$7.2 million. Increased participation by the Company in the offshore drilling program and an increase in net administrative expenses were the principal reasons for the higher Company share of expenditures.

Capital equipment additions amounted to \$1.4 million, a small increase over the previous year's amount of \$1 million.

Financing

The Company was able to finance its share of the 1984 expenditures from the following sources:

- The Thirteenth Expansion Financing and the Trilium Financing provided \$16.6 million;
- Internally generated funds provided from operations of Company rigs, equipment and inventory consumption;
- Petroleum Incentive Program grants on eligible exploration expenditures.

The Company's working capital position decreased in 1984 by \$6.5 million to \$19.7 million.

Panarctic's long term debt was eliminated by December 1984 with only a current short term loan remaining which will be retired in early 1985.

Other

The 1984 sealift amounted to \$5.1 million and included fuel and consumable drilling inventory.

Panarctic had 138 full time employees at December 1984, with a total payroll for the year of \$8.5 million including benefits. The substantial reduction in staff from 182 at the end of the previous year is a result of the reduced activities in drilling and seismic.

Management's Responsibility for Financial Reporting

The consolidated financial statements and other financial information relating to the Company contained in this annual report have been prepared by Management, which is responsible for the integrity and objectivity of this information. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles. These financial statements necessarily include some amounts that are based on informed judgments and best estimates of Management.

Management depends upon a system of internal accounting controls to meet its responsibility for reliable and accurate reporting. Management modifies and improves the system of internal accounting and controls in response to changes in business conditions and exercises its judgments in determining that a reasonable balance is maintained between the costs of such controls and the benefits to be derived therefrom.

Price Waterhouse, Panarctic's independent auditor, is engaged to express a professional opinion on the financial statements. The examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow it to report on the fairness of the financial statements prepared by Management.

Four non-Management directors of the Company serve as the Audit Committee. The Board of Directors, through the Audit Committee, oversees Management's responsibilities for financial reporting. The Audit Committee meets regularly with Management and the independent auditor to discuss auditing and financial matters and to gain assurance that their responsibilities are being carried out. The independent auditor has full and free access to the Audit Committee.

TEN YEAR OPERATING AND FINANCIAL SUMMARY

	1981	1983	1982	1981	1980	1979	1978	1977	1976	1975 & Prior	Total
GROSS											
EXPLORATION											
CAPITALIZED											
Geological											
& Geophysical	\$ 1,104	\$ 2,597	\$ 1,647	\$ 1,978	\$ 1,610	\$ 1,450	\$ 4,216	\$ 4,462	\$ 7,026	\$ 48,332	\$ 74,422
Drilling	29,315	19,957	13,292	13,808	8,304	6,213	24,563	21,346	22,033	85,810	244,641
Admin. &											
General Expense	6,941	4,835	3,186	2,813	2,701	1,854	2,634	2,442	3,347	10,557	41,310
Interest Expense	1,034	3,787	6,331	4,352	3,609	3,062	2,173	1,741	1,728	1,610	29,427
Total*	\$ 34,394	\$ 31,176	\$ 24,456	\$ 22,951	\$ 16,224	\$ 12,579	\$ 33,586	\$ 29,991	\$ 34,134	\$ 146,309	\$ 389,800
Cumulative											
Exploration*	\$ 309,899	\$ 351,406	\$ 320,230	\$ 295,774	\$ 272,823	\$ 256,599	\$ 244,020	\$ 210,434	\$ 180,443	\$ 146,309	
SHARE CAPITAL											
AS AT DEC. 31											
Number of Shares	68,003	62,454	58,241	55,768	48,462	48,462	47,697	44,514	40,900	38,900	
Capital	\$ 297,131	\$ 290,287	\$ 289,946	\$ 285,726	\$ 264,899	\$ 264,899	\$ 255,341	\$ 215,550	\$ 170,376	\$ 145,376	
EMPLOYEES											
Number at Dec. 31	134	182	190	178	157	152	168	165	163	224	
Payroll and Benefits	\$ 4,477	\$ 8,500	\$ 8,257	\$ 6,237	\$ 4,815	\$ 4,565	\$ 4,411	\$ 3,856	\$ 4,168	\$ 4,359	
LANDHOLDINGS											
AT DEC. 31											
Gross Hectares	11,987	12,221	12,202	14,423	16,296	22,187	25,965	28,987	31,263	38,666	
Net Hectares**	4,671	4,829	4,812	5,784	7,049	10,240	10,707	11,062	13,093	19,672	

* Before Petroleum Incentive Program grants, seismic sales, investment income and other sundry credits.

** Subject to 10 percent net profits interest.

Note: All amounts shown in the summary are in thousands except those for the number of employees.

Auditors' Report

To the Shareholders of
Panarctic Oils Ltd.

We have examined the consolidated balance sheet of Panarctic Oils Ltd. as at December 31, 1984 and the consolidated statements of exploration expenditures capitalized and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As explained in Note 1 to the consolidated financial statements the Company's activities are still in the exploratory stage and all expenses, less recoveries from contract operations, have been capitalized from inception to December 31, 1984. The Company is deemed to have realized no profit and sustained no loss to December 31, 1984 and therefore no consolidated income statement is submitted.

Price Waterhouse

Price Waterhouse
Chartered Accountants

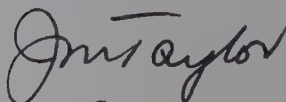
Calgary, Alberta
February 15, 1985

Consolidated Balance Sheet

(thousands of dollars)

	December 31	
	1984	1983
ASSETS		
CURRENT ASSETS:		
Cash and term deposits	\$ 10,979	\$ 3,767
Accounts receivable	8,343	7,979
Exploration expenditures recoverable from shareholders	—	3,717
Petroleum Incentives Program grants receivable	2,811	13,393
Inventory of supplies	13,460	19,197
Prepaid expenses and sundry advances	160	233
	<u>35,753</u>	<u>48,286</u>
CAPITAL ASSETS, at cost:		
Equipment (Note 2)	78,203	80,914
Less: Accumulated depreciation	(54,269)	(42,098)
	<u>23,934</u>	<u>38,816</u>
Exploration expenditures	253,516	245,615
	<u>277,450</u>	<u>284,431</u>
Funds Held in Trust for Panarctic Participants (per contra)	—	3,717
	<u>\$ 313,203</u>	<u>\$ 336,434</u>
LIABILITIES		
CURRENT LIABILITIES:		
Bank indebtedness, unsecured	\$ 9,500	\$ —
Accounts payable and accrued liabilities	6,441	5,179
Petroleum Incentives Program grants to be distributed	141	7,445
Current portion of long-term debt	—	9,500
	<u>16,082</u>	<u>22,124</u>
LONG-TERM DEBT	—	20,306
SHAREHOLDERS' EQUITY:		
SHARE CAPITAL (Note 4):		
Authorized —		
Unlimited common shares of no par value		
Issued — 68,005,235 shares (1983 — 62,453,842)	340,781	324,127
Petroleum Incentives Program grants on shareholder financed expenditures	(43,660)	(33,840)
	<u>297,121</u>	<u>290,287</u>
Funds Held in Trust for Panarctic Participants (per contra)	—	3,717
	<u>\$ 313,203</u>	<u>\$ 336,434</u>

Approved by the Board:



Director



Director

Consolidated Statement of Exploration Expenditures Capitalized

(thousands of dollars)

	Year ended December 31		From Inception to December 31, 1984
	1984	1983	
Geological and geophysical	\$ 1,104	\$ 2,518	\$ 72,947
Drilling (net of recoveries from contract operations)	23,231	7,812	190,215
Administrative and general (net)	6,941	4,835	41,310
Interest expense			
On long-term debt	1,024	3,396	23,777
Other	10	391	6,596
Less: Interest allocated to equipment	—	—	(948)
Interest income	(1,821)	(873)	(4,769)
	30,489	18,079	329,128
Less: Petroleum Incentives Program grants	(22,588)	(25,472)	(75,612)
	<u>\$ 7,901</u>	<u>\$ (7,393)</u>	<u>\$ 253,516</u>

Panarctic Oils Ltd.

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

	Year ended December 31	
	1984	1983
FUNDS WERE PROVIDED FROM:		
Issuance of capital stock —		
To Participants for exploration and commitments fulfilled	\$ 16,654	\$ 12,640
Petroleum Incentives Program grants	22,588	25,472
Drake production facility sponsors	—	364
Other	897	146
	<u>40,139</u>	<u>38,622</u>
FUNDS WERE USED FOR:		
Exploration expenditures before Petroleum Incentives grants	30,489	18,079
Less: Depreciation and other non-cash charges and credits	(12,638)	(13,153)
	17,851	4,926
Petroleum Incentives Program grants remitted to shareholders	9,820	12,299
Purchase of equipment	1,377	1,052
Reduction of long-term debt	17,582	11,000
	<u>46,630</u>	<u>29,277</u>
Increase (decrease) in working capital	(6,491)	9,345
Working capital at beginning of year	<u>26,162</u>	<u>16,817</u>
Working capital at end of year	<u>\$ 19,671</u>	<u>\$ 26,162</u>
CONSISTING OF:		
Current assets	\$ 35,753	\$ 48,286
Current liabilities	(16,082)	(22,124)
	<u>\$ 19,671</u>	<u>\$ 26,162</u>

Notes to Consolidated Financial Statements

December 31, 1984

1. ACCOUNTING POLICIES:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rigel Airways Ltd.

Inventory of Supplies

Inventories are recorded at average laid down cost in the Arctic.

Equipment

Equipment is being depreciated over its estimated useful life by the straight-line method, mainly at the rate of 20%.

Exploration Expenditures

The activities of the Company are still in the exploratory stage and all expenses less recoveries from contract operations have been capitalized; the Company is deemed to have earned no profit and sustained no loss and therefore no income statement is submitted. The amount of Petroleum Incentives Program grants earned is accounted for as a reduction of exploration expenditures. To the extent that the exploration expenditures were incurred by shareholders in consideration for the issuance of common shares, share capital is also reduced by the related grants which are remitted to them.

Capitalization of Interest

Interest on debt specifically obtained for the construction or development of major capital assets is capitalized as part of the related asset until such asset is ready for use.

Pension Plan

The Company has a contributory pension plan covering substantially all employees. Company costs of the plan are charged to operations currently and funded on the basis of actuarial valuations made at least every three years. Cost of any improvements in benefits created by revisions to the plan are amortized over 15 years.

2. EQUIPMENT:

	(thousands of dollars)			Net Book Value December 31 1983
	Cost	Accumulated Depreciation	Net Book Value	
Drilling equipment	\$38,504	\$34,057	\$4,447	\$25,374
Camps and buildings	5,819	5,100	719	1,205
Mobile equipment	5,223	4,300	923	1,328
Storage facilities	3,230	2,603	575	995
Production equipment	4,337	909	3,428	4,917
Aircraft	2,473	1,223	1,250	1,541
Radio and navigational equipment	1,639	1,286	353	685
Other	6,970	4,672	2,298	2,771
	<u>\$78,203</u>	<u>\$54,269</u>	<u>\$23,934</u>	<u>\$38,816</u>

Depreciation recorded in 1984 and capitalized in exploration expense amounted to \$12,812,000 (1983 — \$13,254,000).

3. INCOME TAXES:

Under the terms of an agreement with the Government of Canada the Company has waived its right to claim expenditures for tax purposes in the amount of \$80 million, an amount equal to the cash invested in shares of the Company by the Government. In addition, amounts expended on operations by shareholders as consideration for the issuance of shares of the Company are deductible for tax purposes by the shareholders and not by the Company.

As at December 31, 1984 the Company has the following pools available to apply against future taxable income:

	thousands of dollars		
	1985	Future Years	Total
Capital Cost Allowance	\$5,500	\$14,500	\$20,000
Earned Depletion Allowance	—	13,500	13,500
	<u>\$5,500</u>	<u>\$28,000</u>	<u>\$33,500</u>

Deductions for earned depletion are limited to 25% of production profits. In addition the Company has business investment tax credits totalling \$5,600,000. These credits, which expire between 1985 and 1991, may be applied against future tax liabilities.

4. SHARE CAPITAL:

	Number of Shares	Amount (thousands of dollars)
Balance, January 1, 1984	62,453,842	\$290,287
Issued to shareholders for expenditures incurred in the conduct of exploration operations on Company lands	5,551,393	16,654
Petroleum Incentive Program grants on shareholder financed expenditures in 1984	—	(9,820)
Balance, December 31, 1984	<u>68,005,235</u>	<u>\$297,121</u>

Warrants are outstanding which entitle the holders thereof to purchase an aggregate of 11,440,000 additional common shares at \$1 per share. The warrants are exercisable under certain circumstances during a five year period after 1980 and expire in any event as to 6,800,000 on January 1, 1991 and 4,640,000 on January 1, 1993.

5. COMMITMENT:

The Company entered into a ten year lease agreement effective February 1, 1983 for the rental of office facilities requiring annual rental payments of approximately \$1,600,000.

Summary of Shareholders

(As at April 30, 1985)

	COMMON SHARES
Petro-Canada Inc.	37,002,049
PanCanadian Petroleum Limited	5,558,080
Cominco Ltd.	4,280,915
Dome Petroleum Limited	4,259,953
Trillium Exploration Corporation	3,500,000
Home Oil Company Limited	3,168,130
Inco Limited	2,579,323
Noranda Mines Limited	2,381,394
Canada Northwest Energy Limited	1,587,322
Conventures Limited	1,100,457
Westburne Petroleum & Minerals Ltd.	995,221
Bankeno Mines Limited	933,372
Bow Valley Industries Ltd.	910,371
Dome Mines Limited	492,366
Norcen Energy Resources Limited	461,523
Muskateer Energy Ltd.	385,925
Campbell Red Lake Mines Limited	246,260
Sigma Mines (Quebec) Limited	82,181
Merritt, Robert K.	40,000
Hetherington, Rose	30,934
Crombie, Ethel I.	30,000
Nesbitt Thomson Bongard Inc.	27,637
Canadian Superior Oil Ltd.	18,884
Henao, Diego	17,499
Connelly, E.	13,826
ICG Resources Ltd.	12,343
Armstrong, Jack Greaves	10,000
Tanner, B.C.	9,376
Alexander, K. Grey	8,000
Atco Drilling Holdings Ltd.	8,000
Pembina Resources Ltd.	7,688
Golden Eagle Oil & Gas Limited	5,190
Place Gas & Oil Company Limited	2,898
Luscar Ltd.	2,000
Estate of James E. Day	1,976
Franklin, Lindsay J.	490
Canadian Moran Ltd.	319
	<u>70,171,902</u>

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